

**REPORT OF THE AUDIT OF THE  
CLARK COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2008**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CLARK COUNTY SHERIFF**

**For The Year Ended  
December 31, 2008**

The Auditor of Public Accounts has completed the Clark County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$9,494 from the prior year, resulting in excess fees of \$9,531 as of December 31, 2008. Revenues increased by \$83,946 from the prior year and expenditures increased by \$74,452.

#### **Report Comments:**

- 2008-1 The Sheriff Deposited Tax Collections And Fee Receipts Into The Same Bank Account
- 2008-2 The Sheriff Did Not Maintain Accurate Financial Records
- 2008-3 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2008-4 The Sheriff And His Staff Should Seek Additional Training To Improve Financial Accountability

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT .....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENTS AND RECOMMENDATIONS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Berl Perdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Clark County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2010 on our consideration of the Clark County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Berl Perdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2008-1 The Sheriff Deposited Tax Collections And Fee Receipts Into The Same Bank Account
- 2008-2 The Sheriff Did Not Maintain Accurate Financial Records
- 2008-3 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2008-4 The Sheriff And His Staff Should Seek Additional Training To Improve Financial Accountability

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Clark County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

January 27, 2010



CLARK COUNTY  
 BERL PERDUE, JR., SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants		\$	23,959
State Grants			2,000
State - Kentucky Law Enforcement Foundation Program Fund			44,292
State Fees For Services:			
Finance and Administration Cabinet	\$	94,384	
Cabinet For Health And Family Services		2,883	
Sheriff Security Service		27,633	124,900
Circuit Court Clerk:			
Fines and Fees Collected			10,445
Fiscal Court			97,721
County Clerk - Delinquent Taxes			2,034
Commission On Taxes Collected			579,417
Other Fees On Taxes Collected			58,330
Fees Collected For Services:			
Auto Inspections		9,100	
Accident and Police Reports		478	
Serving Papers		88,333	
Carrying Concealed Deadly Weapon Permits		10,750	108,661
Other:			
Transporting Prisoners		4,184	
Reimbursements		20,310	
Miscellaneous		16,982	41,476
Interest Earned			2,362
Borrowed Money:			
State Advancement		200,000	
2008 Tax Account		24,327	224,327
Total Revenues			1,319,924

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY  
 BERL PERDUE, JR., SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2008  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	607,791
Employee Benefits-		
Employer's Share Social Security		51,996
Employer's Share Retirement		10,474
Contracted Services-		
Advertising		797
Materials and Supplies-		
Office Materials and Supplies		35,794
Uniforms		6,042
Law Enforcement Supplies		19,898
Auto Expense-		
Gasoline		71,213
Maintenance and Repairs		33,504
Other Charges-		
Conventions and Travel		2,787
Dues		355
Postage		6,282
Fiscal Court Filing Fees		20,040
Bond		406
Carrying Concealed Deadly Weapon Permits		4,715
Transporting Prisoners		3,223
Training Expenses		4,991
Reimbursements		97,308
Miscellaneous		1,568
Capital Outlay-		
Office Equipment		5,217
Vehicles		19,748
		<u>19,748</u>
	\$	1,004,149

Debt Service:

State Advancement	200,000	
2008 Tax Account	<u>24,327</u>	<u>224,327</u>

Total Expenditures		<u>\$ 1,228,476</u>
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The accompanying notes are an integral part of this financial statement.

CLARK COUNTY  
BERL PERDUE, JR., SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2008  
(Continued)

Net Revenues	\$ 91,448
Less: Statutory Maximum	<u>79,308</u>
Excess Fees	12,140
Less: Training Incentive Benefit	<u>2,609</u>
Excess Fees Due County for 2008	<u><u>\$ 9,531</u></u>

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Clark County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clark County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLARK COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2008  
(Continued)

Note 4. Special Accounts

A. Interdiction Account

The Clark County Sheriff's Office maintains an Interdiction Account. This account is maintained for the purpose of receiving funds surrendered as a result of drug related cases. The funds are to be expended for law enforcement purposes and can be restricted by court order. The balance on January 1, 2008 was \$24,193. During 2008, \$5,838 was received and \$27,815 was expended, leaving a balance of \$2,216 as of December 31, 2008.

B. COPS Grant Account

The Clark County Sheriff's Office maintains an account for the receipt of COPS Grant funds. The funds are to be expended in accordance with the grant agreements. The balance on January 1, 2008 was \$285. During 2008, \$40,244 was received and \$40,233 was expended, leaving a balance of \$296 as of December 31, 2008.

C. DARE Account

The Clark County Sheriff's Office maintains a DARE account for the receipt of DARE program funds. The funds are to be expended for DARE program activities. The balance on January 1, 2008 was \$3,622. During 2008, \$2,966 was received and \$2,472 was expended, leaving a balance of \$4,116 as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive  
The Honorable Berl Perdue, Jr., Clark County Sheriff  
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clark County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated January 27, 2010 . The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- 2008-1 The Sheriff Deposited Tax Collections And Fee Receipts Into The Same Bank Account
- 2008-2 The Sheriff Did Not Maintain Accurate Financial Records
- 2008-3 The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

2008-4 The Sheriff And His Staff Should Seek Additional Training To Improve Financial  
Accountability

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clark County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 27, 2010

## COMMENTS AND RECOMMENDATIONS



CLARK COUNTY  
BERL PERDUE, JR., SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

INTERNAL CONTROL - MATERIAL WEAKNESSES:

2008-1 The Sheriff Deposited Tax Collections And Fee Receipts Into The Same Bank Account

To ensure proper internal controls over fee and tax collections, monies collected by the Sheriff should be deposited into the appropriate bank account (i.e. fee receipts deposited directly into the fee bank account and tax receipts deposited directly into the tax bank account).

During 2008, all monies, regardless of source (tax collections and fee receipts), were deposited into the 2008 fee account. Transfers for tax collections were then made from the 2008 fee account to tax accounts. Transfers were not made in a timely manner, and reconciliations of daily receipts were not prepared to ensure amounts transferred agreed with daily receipt records.

Combining collections of fees and taxes reflects poor internal controls over these receipts and could result in the misappropriation of assets and/or inaccurate financial reporting. We recommend that fee and tax collections be deposited into the appropriate bank account. We also recommend that all accounts be reconciled in a timely manner.

*Sheriff's Response: This practice has already been corrected.*

2008-2 The Sheriff Did Not Maintain Accurate Financial Records

Accurate financial reporting is obtained when all records are properly completed and agreed to other supporting documentation. The Fourth Quarter Financial Report for 2008 was determined to be inaccurate and incomplete. Daily checkout sheets were not maintained and the receipts and disbursements ledgers were not maintained in a manner suitable for accurate reconciliation procedures.

In order to determine the appropriate amount of receipts and disbursements for 2008, auditors compared each record of daily receipts to the corresponding bank deposit and recapped all cancelled checks, bank account debits and electronic fund transfers. This process resulted in significant adjustments to amounts originally reported on the Fourth Quarter Financial Report.

The Sheriff should ensure the accuracy of financial reports by maintaining accurate daily receipt records that are then posted to the receipts ledger. The disbursements ledger should reflect all transactions involving the expenditure of fee account funds, including bank debits and electronic transfers. The accuracy of quarterly financial reports is directly related to the accuracy of the Sheriff's receipts and disbursements ledgers, and we recommend the Sheriff maintain these ledgers in a manner that facilitates accurate quarterly financial reporting and ultimately the annual settlement of the fee account.

*Sheriff's Response: Financial records are now being compiled to the auditor's standards.*

CLARK COUNTY  
BERL PERDUE, JR., SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2008  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2008-3 The Sheriff's Office Lacks Adequate Segregation Of Duties

Adequate segregation of duties over accounting functions such as collecting and recording daily receipts, preparing bank deposits, writing checks, maintaining ledgers, reconciling bank records to the ledgers and preparing quarterly financial reports, or implementing compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Sheriff's office lacks an adequate segregation of duties over accounting functions. One employee prepares daily bank deposits, posts daily receipts to the receipts ledger and collects daily receipts when the office is short staffed. This employee prepares and co-signs checks and posts to the disbursements ledger. This employee also prepares quarterly financial reports.

Strong compensating controls should be in place to offset the lack of adequate segregation of duties as a result of limited staff. The Sheriff had several compensating controls in place during 2008, however, these were determined to be ineffective resulting in inaccurate financial records and inaccurate financial reporting.

Lack of adequate segregation of duties or strong oversight can result in the misappropriation of assets, and for 2008 caused inaccurate financial reporting to external agencies such as the Department of Local Government.

To protect against asset misappropriation and/or inaccurate financial reporting, the Sheriff should segregate duties involved with daily collections, preparing deposits, posting to the receipts ledger and preparing monthly reconciliations. The Sheriff should also segregate duties related to preparing and signing checks, posting to the disbursements ledger and preparing monthly and quarterly financial reports. If, due to a limited number of staff, adequate segregation of duties is not feasible, strong oversight should be provided over accounting functions and should involve an employee not currently performing those functions. The Sheriff can provide oversight and the implementation of compensating controls should be documented on appropriate source documents.

*Sheriff's Response: More compensating controls have been and will be implemented to make up for the lack of personnel.*

2008-4 The Sheriff And His Staff Should Seek Additional Training To Improve Financial Accountability

Procedures conducted during the audit indicate certain elements of financial accountability could be improved with additional training. Tests conducted and a recap of receipts and disbursements indicate problems with regard to daily, monthly and overall reconciliation procedures as well as the preparation of accurate financial reports.

CLARK COUNTY  
BERL PERDUE, JR., SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2008  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

2008-4 The Sheriff And His Staff Should Seek Additional Training To Improve Financial Accountability (Continued)

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Daily receipts and disbursements were not properly recorded in the receipts and disbursements ledgers. Without the maintenance of accurate ledgers, financial reports were therefore inaccurate and/or incomplete. In order to determine appropriate amounts for 2008, the auditor recapped daily receipts, cancelled checks, bank debits and electronic fund transfers. These procedures resulted in significant adjustments to the Sheriff's Settlement as published.

Tax collections were deposited into the fee bank account and then transferred to tax bank accounts, instead of being deposited directly into tax bank accounts. Transfers were not made in a timely manner and were not reconciled, resulting in inaccurate or incomplete ledgers, financial reporting and monthly reconciliations.

In order to improve financial accountability, we recommend the Sheriff and his staff obtain additional training in the overall reconciliation of receipts and disbursements. We also recommend the Sheriff and his staff obtain additional training on the proper utilization of the software system.

*Sheriff's Response: The Sheriff has hired a CPA to take over all bookkeeping. Additional training will be sought.*

